

Wheat Market Outlook and Price Report: October 23rd, 2017

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i) Background and Rationale for the Report

The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

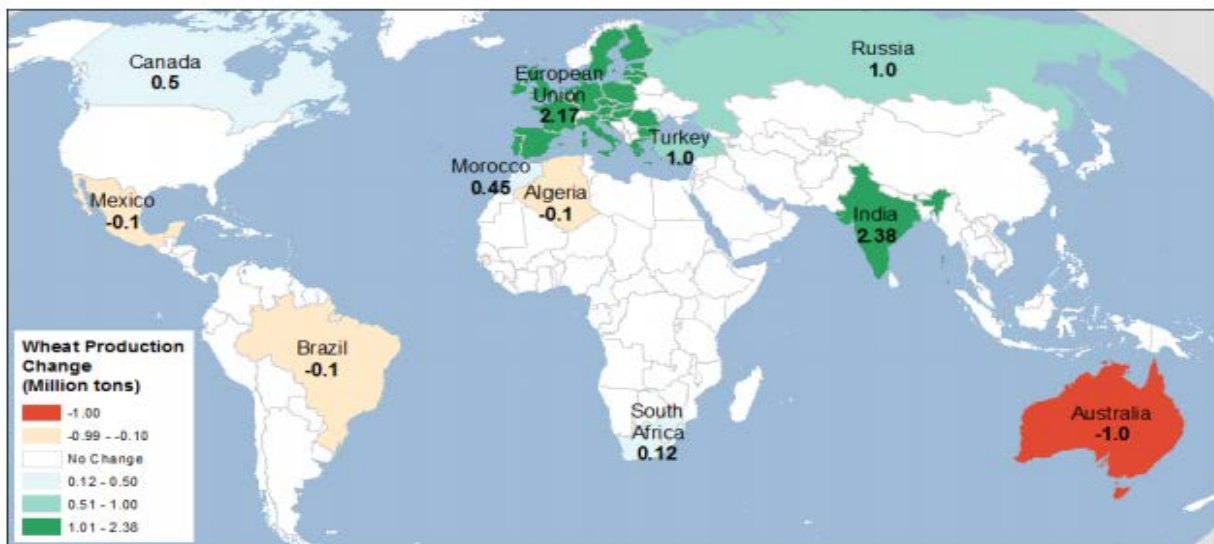
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various Saskatchewan locations (Table 1), grain spreads (Table 2), and FOB port prices and basis (as measured by subtracting the primary elevator price (Rosetown) from the relevant port location price for individual crops) (Table 3). Table 3 is preceded by a description of the various assumptions, definitions and methodology used in arriving at the FOB port prices and in the export basis calculation.

ii) Wheat Market Outlook October 23/17

2017/18 World Wheat Overview:

- **October WASDE report, International Outlook:**
 - **World wheat production in 2017/18** is forecast at 751.2 million mt, up 6.3 million mt this month and less than 3 million tons behind last year's record. Foreign wheat production was boosted in the latest WASDE report by 6.3 million mt.
 - **Wheat production forecasts** for several countries in the Northern Hemisphere have been revised this month based on harvest reports and official information. The largest increases in wheat output this month are for India, the European Union (EU), Russia, Turkey, Canada, and Morocco.

Map A – Wheat production changes for 2017/18, October 2017



Source: USDA, Foreign Agricultural Service, Production, Supply, and Distribution database.

➤ **Global wheat production and trade:**

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** In Minneapolis, hard red spring wheat closed the week at 611.2, down by 3.6 cents for the week, and down by 4.4 cents in Fridays trade.
- **Funds** There was very little action by funds this week; they bought 100k mt of wheat over the week.
- **Matif:** Matif exchange in Europe dropped a small €0.75/mt over the past week, and was down in Fridays trade.

Canadian wheat:

- According to the CGC, producers delivered 312k mt of wheat into the handling system, which is up from last week's 266.3k mt. Exports for week 11 were 232k mt, up from last week's 180k mt, and up by 6% from last year's YTD exports.

(CGC) Grain Handling Summary Wheat week 11 (to Oct. 15/17)				
('000 mt)	Terminal			Dom.
	Prod. Dhvs.	Rcpts.	Bulk exports	Disappearance
week 11	311.9	297.8	232.2	85.2
Week ago	266.3	332.0	179.9	88.5
YTD	3,887.2	4,251.4	3,137.8	1,221.2
Last YTD	3,595.4	4,641.2	2,964.1	622.8
YTD less Last YTD (k mt)	291.8	-389.8	173.7	598.4
YTD over Last YTD (%)	108%	92%	106%	196%

Mercantile based on weekly CGC Handling Data

- Elevator stocks are currently at 3.3 million mt with 1.5 million mt at primary elevators and most of the remaining inventory at port.
- *Wheat visible stocks are a big 3.3 mln mt, as shipping/ rail loadings continue to be much smaller than deliveries into the primary elevator system.*

(CGC) Grain Handling Summary Durum week 11 (to Oct. 15/17)				
('000 mt)	Terminal			Dom.
	Prod. Dhvs.	Rcpts.	Bulk exports	Disappearance
week 11	70.1	115.1	64.7	2.8
Week ago	33.6	61.6	41.9	1.8
YTD	682.4	1,021.1	748.5	173.0
Last YTD	694.4	1,012.6	670.0	60.8
YTD less Last YTD (k mt)	-12.0	8.5	78.5	112.2
YTD over Last YTD (%)	98%	101%	112%	285%

Mercantile based on weekly CGC Handling Data

- Producers delivered 70k mt of **durum** into the handling system over the past week. Durum exports during week 11 amounted to 65k mt; 749k mt year-to-date. This is 12% ahead of last year's year to date exports of 670k mt.

○ **US wheat:**

US was cheapest wheat offered at the Iraq tender at US\$299/mt. *We do not understand why US and not Canadian wheat was cheapest wheat offered on the Iraq tender. The US price represents at least C\$316.00/mt FOB St. Lawrence, which would seem a good price for Canadian wheat compared to interior bids. Australian wheat was also offered cheaper than Canadian wheat to Iraq. Required Iraq quality is roughly equivalent to #3 CWRS quality.*

○ **Australian wheat:**

Australian wheat futures closed at a 7-week low. Australian wheat was reported to have been offered within US\$2/mt of the US price at the Iraq tender.

The recent rain was very beneficial for feed grain crops in Australia and values fell sharply. Wheat harvest has started and rains from here on are not going to be beneficial.

The US Ag Attaché put the Australian crop at 20 mln mt, which is 1.5 mln mt below the USDA estimate and more in line with what the trade is using.

Argentine wheat:

Argentinian new crop 12% protein wheat ended the week unchanged at US\$182/mt. The 11.5% protein discount is still at US\$5/mt. Given a freight of US\$36/mt, it is unlikely that any Argentinian wheat sold at the Algerian tender.

EU wheat:

- *EU wheat values dropped to compete with Russian wheat values. EU wheat exports are down from last year's, so this is an attempt to win markets back, albeit at much lower values.*
- EU wheat traded to Morocco at US\$188/mt.

Black Sea wheat:

- Black Sea quality spreads were again little changed with Russian 12.5% protein wheat priced at US\$193/mt for Oct-Nov'17, plus US\$1-2/mt per month carry. 11.5% protein wheat is US \$7/mt less, and feed wheat another US\$6/mt less (which is around \$10 above the Korean feed wheat parity).
- Egypt (GASC) saw over 600k mt of Russian wheat offered below the cheapest Romanian price, which looked quite aggressive given the increasing GASC costs.
- Egypt was able to buy at near unchanged prices from the previous tender.

Significant purchases/ trades:

This was a very good week for cash wheat business. About 1.5 million mt of wheat traded this week in international markets.

- **Algeria** bought 660,000 mt of wheat for January '18 shipment at US\$210-\$212.50/mt.
- **Egypt** (GASC) bought 235,000 mt of Russian wheat for Dec. 1-10 shipment at US\$213.75/mt.
- **Korea** bought 69,000 mt of feed wheat for Feb.'18 arrival at US\$205/mt.
- **Marocco** paid US\$206.00/mt C&F for EU wheat.
- US inspections were 323,000 tonnes (season total 390 myn bushels down 4%), sales were 615,000 tonnes (season total 544 myn bushels, also down 4%). *US wheat was cheapest at the Iraq tender at US\$299/mt.*
- **Ethiopia** postponed it's 400,000 mt tender to next Tuesday.
- **Turkey** tenders Oct 26 for 150,000 mt of wheat.

Wheat Market Outlook:

➤ Significant events:

- *EU wheat values dropped to compete with Russian wheat values. EU wheat exports are down from last year's, so this is an attempt to win markets back, albeit at much lower values.*
- *US wheat sold to Iraq at still a high price of US\$299/mt. This means that US HWW still has a US\$3040/mt premium to cheapest wheat in the world. This is why this would have been a good tender to offer Canadian wheat to try and capture some (or all) of the premium. To our knowledge, no Canadian wheat was offered. Australian wheat was also offered and is now competitive with HRW wheat.*

➤ **Outlook:**

- French wheat prices are now down and about parity with Russian/FSU prices. French sold to Marocco at about US\$188.00/mt FOB.
- If North American wheat is to do anything other than traditional 'locked markets' like Japan, it is going to have to come down in price; otherwise exports will decline. At current premiums for US wheat, the WASDE export estimates are overstated.
- Chicago wheat will remain under pressure as EU traders use it as their short hedge against long Russian/FSU/EU wheat. Over the short term, we could see cash wheat export prices decline another 10 cents per bushel, but the market is now finding a good volume of cash buyers.

- o Canadian exporters need to start finding some export business, otherwise exports of wheat are unlikely to achieve 16 mln mt. Stay away from Mpls. Dec wheat wheat; the locals expect to trap some Canadian shorts.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT

Date: October 23, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '17 (bu.)	Dec. '17 (mt)
1 CWRS 13.5	\$6.34	\$232.96	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.02	\$257.94	1 CWAD 13.0	\$7.12	\$261.62
1 CPSR 11.5	\$4.57	\$167.92	1 CPSR 11.5	\$4.45	\$163.51
SW Sask			SW Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.09	\$260.51	1 CWAD 13.0	\$7.19	\$264.19
1 CPSR 11.5	\$4.54	\$166.82	1 CPSR 11.5	\$4.44	\$163.14
NE Sask			NE Sask		
1 CWRS 13.5	\$6.18	\$227.08	1 CWRS 13.5	\$6.26	\$230.02
1 CWAD 13.0	\$6.97	\$256.11	1 CWAD 13.0	\$7.04	\$258.68
1 CPSR 11.5	\$4.35	\$159.84	1 CPSR 11.5	\$4.26	\$156.53
SE Sask			SE Sask		
1 CWRS 13.5	\$6.23	\$228.92	1 CWRS 13.5	\$6.28	\$230.75
1 CWAD 13.0	\$7.12	\$261.62	1 CWAD 13.0	\$7.19	\$264.19
1 CPSR 11.5	\$4.37	\$160.57	1 CPSR 11.5	\$4.37	\$160.57

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.20)	(7.35)
1 CWRS 12.5	(0.37)	(13.60)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.03	1.10
2 CWAD 13.0	(0.79)	(29.03)
2 CWAD 12.5	(0.97)	(35.64)

iv) FOB Wheat Prices and Export Basis Calculation

Background and Rationale:

Reporting FOB prices at port position and primary elevator prices allows the reader to gain an understanding of both local and international wheat prices and to understand the relationship between the two, as measured by the export basis. Export basis can be defined as FOB port position prices minus the primary elevator prices at any given prairie delivery location, and is therefore reflective of transportation costs plus any premiums being captured by terminal grain elevator companies or the railway companies, at any given time.

In general, a widening basis is indicative of decreasing system performance in terms of either reduced port capacity or rail service, or both. A narrowing basis is indicative of increased available port capacity and/or better ability of the railways to provide ample service to grain shippers. In this regard, tracking these prices over time has value both in terms of producers being able to time the selling of their grain but also in terms of evaluating and setting policy related to various transportation and capacity issues.

Gray (2015) has calculated a normal basis to be in the range of C\$72/tonne. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/tonne, which indicated an inability of the grain handling and transportation system to adequately handle the record crop produced that year. This occurrence has highlighted the need to improve the level of rail service and take measures to expand port capacity where possible. It has also underscored the need for better price transparency and market information within the grain sector.

Assumptions, Definitions, and Methodology

The following background information should assist in understanding and interpreting international market signals and to relate them to the 'local' Saskatchewan wheat market:

- The price information generated for the weekly report is designed to show farmers at what price levels several wheat classes are trading at local primary elevators (Table 1) and in nearby international markets (Table 3). To express the Export Basis¹ (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, Saskatchewan (see *Street Prices* in Table 3). Rosetown is used as a proxy for all primary elevators in the basis calculation. The actual handling and transportation costs from the West Coast to delivered elevator (Rosetown area) range from ~C\$58.00-C\$74.72/mt, depending on number of cars moved and elevator used.
- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
 - DNS 14% in the Pacific North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific North West (PNW) ≈ 3 CWRS in Vancouver
 - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)

¹ Gray, R.S. (2015). The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers 2012/13, 2013/14 and 2014/15.

"The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to producers is referred to as export basis: Basis can refer to the difference between any two prices. As the largest volume port, Vancouver FOB, minus the elevator bid prices representative measure of the "export" basis for grains in Western Canada."

- HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)
 - Abbreviations: DNS (Dark Northern Spring Wheat); HRS (Hard Red Spring Wheat); HRW (Hard Red Winter Wheat); SW (Soft Wheat); HAD (Hard Amber Durum Wheat); CWRS (Canadian Western Red Spring Wheat); CPS (Canada Prairie Spring Wheat); CWAD (Canadian Western Amber Durum Wheat)
- Hard wheat price calculations:

Exporters in Western Canada generally derive their primary elevator wheat prices from HRS values at the West Coast (Pacific Northwest - PNW). Similarly, HRW values are used for lower grade (3) CWRS.

 - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.
 - If premiums are paid for 1 CWRS 13.5, elevator companies are often able to retain the premium
- Durum wheat price calculations:

The primary export route for Canadian durum wheat is still through Thunder Bay, not the West Coast of Canada.

 - Nevertheless, the Pacific Coast has increased in importance for durum over time with 38% of total export volume crop year to date.
 - Italy is the single biggest buyer of Canadian durum wheat with 27% of total Canadian durum exports YTD (East Coast shipments).
- Optional origin grain sales:

Most major international grain companies sell 'optional origin' wheat to their customers and often cover their sales 'at best' closer to the shipment position. The Canadian grain system is not conducive to servicing optional origin sales because the volume of wheat kept in storage in port today is much smaller than prior to deregulation of the Canadian wheat market.

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				Oct. 23, 2017
Type of Wheat	FOB Prices CDA ¹ (calculated)		Street Prices	Export Basis ²
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$351.08	\$317.49		
HRS	\$344.18			
HRW 11.5	\$270.56			
SWW 12.0	\$252.61			
1 CWRS 13.5³	\$351.08		\$232.59	\$118.49
2 CWRS 13.0³	\$344.18		\$208.71	\$135.47
3 CWRS³	\$270.56		\$201.36	\$69.20
CPS³	\$246.17		\$159.84	\$86.34
1 CWAD⁴		\$402.62	\$245.82	\$156.80
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$193.00			
French 11.5 (Rouen)	\$191.29			
APW 10.5 (W Coast)				
Argentine 12.0				

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

⁴ Values derived to Lakehead FOB

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					Oct. 23, 2017
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.38	\$9.19	\$7.19	\$6.70	\$6.70
Parity Track Rosetown	\$7.88	\$7.70	\$5.69	\$5.20	\$5.20
Track Bid Rosetown Area	\$6.33	\$5.68	\$5.48	\$4.35	\$4.35
Gross Margin at Elevator (\$/bu)*	\$1.55	\$2.02	\$0.21	\$0.85	\$0.85
Gross Margin at Elevator (\$/mt)*	\$57.07	\$74.05	\$7.77	\$31.35	\$31.35
* to cover elevation, elevator market risk, margin					